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FLORENCE P. BELSER
GENERAL COUNSEL

RECEIVED
2005 FEB 22 PM 4:20
SC PUBLIC SERVICE
COMMISSION

February 22, 2005

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Application of Midlands Utility, Inc. for an approval of New Schedule of Rates and Charges for Sewage Service provided to its customers in Richland, Lexington, Fairfield and Orangeburg Counties.
PSC Docket No.: 2004-297-S

Dear Charles:

Enclosed for filing please find the original and twenty-six (26) copies of the Surrebuttal Testimony of the following Office of Regulatory Staff Witnesses: Willie J. Morgan, Dawn M. Hipp and Roy H. Barnette in the above referenced matter. Please date stamp the extra copy enclosed and return it to me via our courier.

Please let me know if you have any questions.

Sincerely,

Wendy B. Cartledge

WBC/cc

Enclosures

cc: Charles Cook, Esquire

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2004-297-S

IN RE: Application of MIDLANDS)
UTILITIES, INC. for an Approval)
Of New Schedule of Rates and)
Charges For Sewage Service)
Provided to its Customers in)
Richland, Lexington, Fairfield and)
Orangeburg Counties.)
_____)

CERTIFICATE OF SERVICE

This is to certify that I, Cindy Clary, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the Surrebuttal Testimony of Willie J. Morgan, Dawn M. Hipp and Roy H. Barnette in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Charles Cook, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, South Carolina 29205



Cindy Clary

February 22, 2005
Columbia, South Carolina

SURREBUTTAL TESTIMONY OF WILLIE J. MORGAN

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2004-297-S

IN RE: MIDLANDS UTILITY, INC.

RECEIVED
2005 FEB 22 PM 4:20
SC PUBLIC SERVICE
COMMISSION

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Willie J. Morgan, and my business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina, Office of Regulatory Staff ("ORS") as the Program Manager for the Water and Wastewater Department.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY
INVOLVING MIDLANDS UTILITY, INC. ("MUI") FOR THIS
PROCEEDING?**

A. The purpose of my testimony is to clarify ORS's position on certain issues raised by Mr. Keith G. Parnell and Mr. Charles K. (Ken) Parnell during their rebuttal testimony concerning MUI's rate case application and management practices. Specifically, I will focus on the proposed depreciation and treatment issues at its wastewater treatment facilities (WWTFs).

1 **Q. PLEASE DESCRIBE WHY A 20-YEAR DEPRECIATION SCHEDULE IS**
2 **INAPPROPRIATE FOR MUI'S PROPOSED WASTEWATER**
3 **TREATMENT FACILITY ("WWTF").**

4 A. Exhibit WJM-9, is a map showing the location of the WWTFs that receives
5 wastewater from MUI's collection system. MUI states in its rebuttal testimony
6 that equipment at its three WWTFs should have a useful life of no more than 20
7 years due to anticipated changes in discharge limits. MUI has offered no
8 documentation, historical data, or studies that would support this length of service
9 life, but instead, bases this proposal on speculation. Further, in its rate case
10 application, MUI contradicts this position by stating the existing sewer plant
11 should have a depreciation schedule of 15 years while the new sewer plant service
12 life schedule should be 25 years.

13 Contrary to MUI's rebuttal testimony, a 32-year service life is more appropriate
14 because of the useful life of the equipment (sewer plant). ORS bases this
15 recommendation on guidelines set forth in Florida Public Service Commission
16 Water and Wastewater System Regulatory Law, Rule 25-30.140, Florida
17 Administrative Code as last amended on December 4, 2003. Further, ORS uses
18 the National Association of Regulatory Utility Commissioners (NARUC)
19 definition for depreciation. "'Depreciation', as applied to a depreciable utility
20 plant, means the loss in service value not restored by current maintenance,
21 incurred in connection with the consumption or prospective retirement of utility
22 plant in the course of service from causes which are known to be in current
23 operation and against which the utility is not protected by insurance." (Emphasis

1 added). Depreciation cannot be tied to unknown changes in regulatory law;
2 rather, it should reflect the projected useful life of the equipment or material. In
3 this case, the projected service life of the system is 32 years. If MUI proposes
4 that the Commission consider a different depreciation schedule, then MUI should
5 justify an alternative schedule using historical data, technical information, service
6 life studies, or specific detailed utility planning for the affected utility.

7 **Q. WHAT IS YOUR OPINION ABOUT CONSIDERING COMPETING**
8 **OPTIONS FOR PROJECT WORK ON MUI?**

9 A. The process of considering competing options can help evaluate cost differences
10 between similar proposals as well as different upgrade options. Allowing
11 competitors to participate could help MUI look at options that may not have been
12 considered. While HPG and Company may be capable of managing the project, it
13 might not be the best overall cost option for MUI and its customers.
14 Bids from other engineering firms could have been helpful in establishing the
15 reasonableness of the estimated costs of the project because bids would have
16 shown market or competitive prices. As it stands, all we have as to the
17 reasonableness of the costs are the costs supplied by a company with an owner
18 common to it and to the utility considering Mr. Ken Parnell is an owner in both
19 MUI and in the engineering firm (HPG and Company) selected by MUI. While
20 Mr. Parnell's engineering company may be able to save some costs for MUI, there
21 is no way to determine that from what has been presented. Customers should not
22 be required to pay a price higher than what would be available in the market, and

1 based on the information provided, there is no way to determine whether that is
2 the case here or not.

3 **Q. WHAT CONCERNS DO YOU HAVE WITH THE SELECTION OF THE**
4 **SBRs AS REPLACEMENT PLANTS FOR UPGRADES TO MUI's**
5 **WWTFs?**

6 A. The SBRs may very well be the best solution for solving MUI problems and can
7 assists it in meeting the current DHEC requirements. However, ORS was not
8 provided with the detailed analysis used by MUI in selecting the SBRs as the
9 solution to its treatment problems. This information was requested in the data
10 request of January 14, 2005, and MUI indicated that it did not consider other
11 options to address its compliance problems. See Exhibit WJM-10, item 1.72.

12 **Q. WHAT CONCERNS DO YOU HAVE WITH MUI's USE OF SBRs AT ITS**
13 **THREE WWTFs?**

14 A. As Mr. Charles K. Parnell stated in his rebuttal testimony, the SBR produces a
15 high quality effluent. However, the system must be properly operated and
16 maintained such that the effluent produced by the SBR will be within the
17 manufactures design limits. One main issue with SBRs is their need for the
18 routine removal of sludge. It is essential to de-sludge the SBR at the correct
19 intervals, otherwise effluent quality will deteriorate. Proper sludge removal is an
20 important issue for a WWTF that has included an Ultra Violet (UV) disinfection
21 unit as part of the treatment process.

22 **Q. WHY IS THE REMOVAL OF SLUDGE AN IMPORTANT FEATURE IN**
23 **A WWTF THAT HAS AN UV DISINFECTION UNIT?**

1 A. MUI must properly maintain the treatment process and control the level of its
2 total suspended solids (TSS) in the wastewater that passes through the
3 disinfection unit. Inappropriate amount of sludge buildup in the SBR can lead to
4 high levels of TSS in the effluent. This can lead to the WWTF failing its permit
5 limit for fecal coliform bacteria.

6 **Q. DO YOU HAVE ANY COMMENTS CONCERNING THE USE OF**
7 **CHLORINE AS A DISINFECTANT IN MUI'S WASTEWATER**
8 **TREATMENT SYSTEMS PROCESS?**

9 A. Chlorine is the most commonly used disinfectant for wastewater treatment in
10 South Carolina. In fact, this is the current method of treatment at MUI's existing
11 WWTF. We are not aware of any accidents associated with the use of chlorine as
12 a disinfectant for a wastewater treatment process. The amount of chlorine
13 managed at MUI's WWTFs is very small compared to the amount of chlorine that
14 was involved in the accident that created the headlines recently. Our position is
15 that the chlorination process should have been considered during a review of
16 alternatives for upgrading the MUI's WWTF.

17 **Q. WHAT CONCERNS DO YOU HAVE WITH THE TOTAL COST**
18 **ESTIMATES THAT HAVE BEEN PRESENTED FOR UPGRADING THE**
19 **THREE WWTFs AT MUI?**

20 A. The cost estimates for upgrades at two of MUI WWTFs, Bellemeade and
21 Raintree, are speculative at best. Construction plans for the upgrades have not
22 been submitted or approved by DHEC.

23 **Windy Hill WWTF**

1 It should be noted that DHEC required changes to the initial construction plans
2 that were submitted by MUI for its Windy Hill WWTF. While the plans have
3 been approved, ORS has yet to receive a copy of the approved plans. See Exhibit
4 WJM-10, items 1.63 and 1.64. In the Preliminary Engineering Report, MUI
5 proposed an oversized UV system to deal with any fecal coliform bacteria (FC)
6 and total residual chlorine (TRC) problems. The Windy Hill WWTF has an
7 overall permitted discharge capacity to its sprayfield of 42,000 gallons per day.
8 The proposed SBR will have a capacity of 50,000 gallons per day while the
9 proposed UV system will have a design capacity of approximately 311,000
10 gallons per day. Therefore, the proposed UV system will be well oversized for
11 what is needed at the WWTF. An UV system can solve FC and TRC problems if
12 properly operated. However, MUI was not cited for FC and TRC problems by
13 DHEC in the consent order relating to the upgrade. Therefore, the \$25,000 cost
14 for an UV system at the Windy Hill WWTF is not necessary. The existing
15 disinfection system is working properly and the Windy Hill facility is in
16 compliance for FC and TRC. See Exhibit WJM-11.

17 **Raintree Acres/Dutch Creek WWTF**

18 In the Preliminary Engineering Report, MUI appears to have proposed an
19 oversized UV system to deal with any fecal coliform bacteria (FC) and total
20 residual chlorine (TRC) problems. The Raintree WWTF has an overall permitted
21 discharge capacity to the Broad River of 140,000 gallons per day. The proposed
22 SBR will have a capacity of 150,000 gallons per day while the proposed UV
23 system will have a design capacity of approximately 311,000 gallons per day.

1 Therefore, the proposed UV system will be well oversized for what is needed at
2 the WWTF. The projected cost for the disinfection unit is \$25,000. The WWTF
3 construction plan upgrade application has not been approved by DHEC at this
4 time. Changes to construction plans can alter the construction cost drastically.
5 See Exhibit WJM-12.

6 **Bellemeade WWTF**

7 In MUI's earlier request to the PSC concerning its contract approval to the City of
8 Cayce, the projected cost for the upgrade for the Bellemeade WWTF was
9 approximately \$350,000. See Commission Order No. 2004-202. Now, the MUI
10 projects the cost for the upgrade to the Bellemeade WWTF to be \$505,000.

11 In the Preliminary Engineering Report, MUI appears to have proposed an
12 oversized UV system to deal with any fecal coliform bacteria (FC) and total
13 residual chlorine (TRC) problems. The Bellemeade WWTF has an overall
14 permitted discharge capacity to the ditch leading to Dry Creek of 80,000 gallons
15 per day. The proposed SBR will have a capacity of 80,000 gallons per day while
16 the proposed UV system will have a design capacity of approximately 311,000
17 gallons per day. Therefore, the proposed UV system will be well oversized for
18 what is needed at the WWTF. The projected cost for the disinfection unit is
19 \$25,000. The WWTF construction plan upgrade application has not been
20 approved by DHEC at this time. Changes to construction plans can alter the
21 construction cost drastically. See Exhibit WJM-13.

22 **Q. DOES THAT CONCLUDE YOUR SURREBUTAL TESTIMONY?**

23 **A.** Yes it does.

EXHIBIT INDEX OF THE WATER/WASTEWATER DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2004-297-S

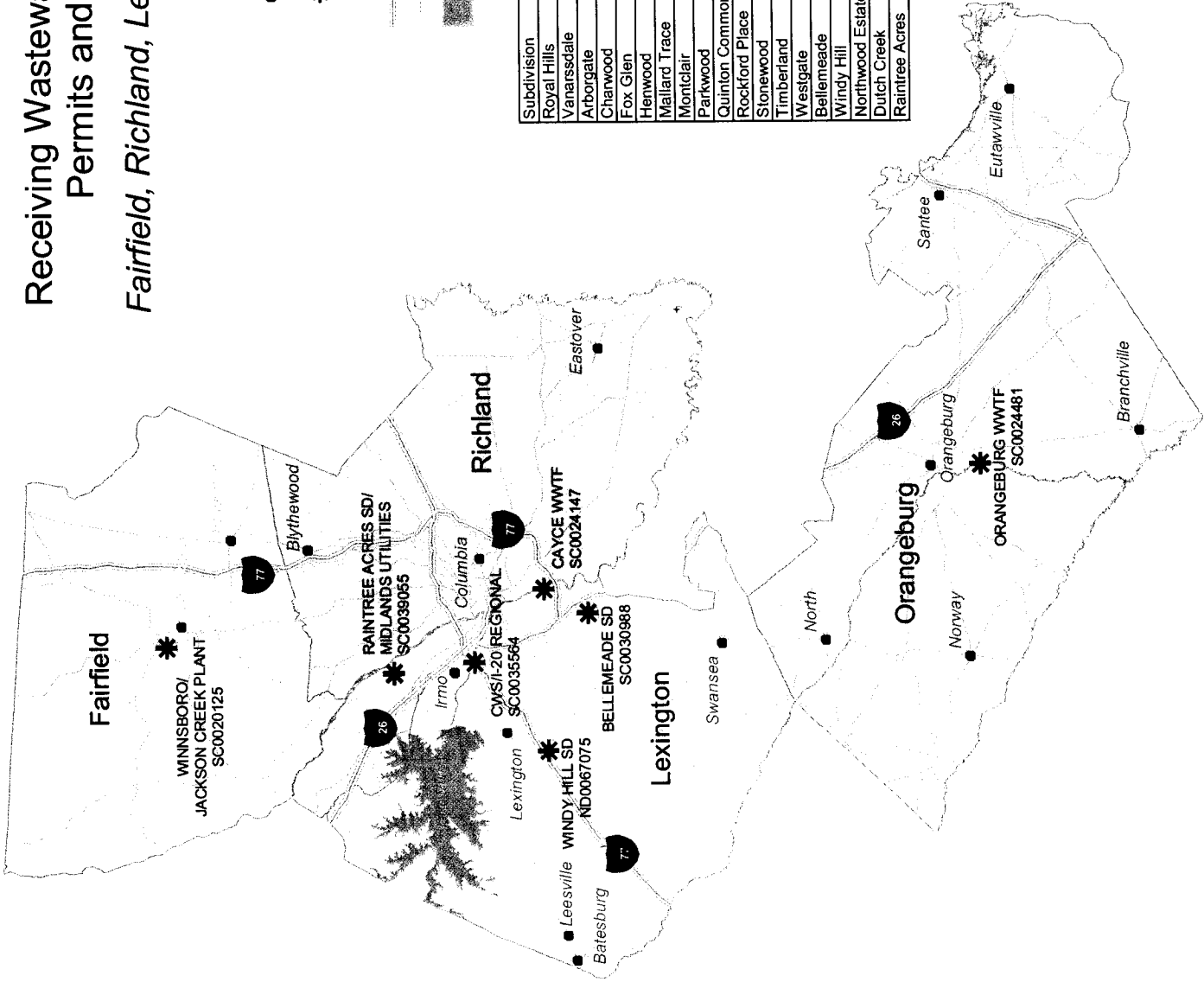
MIDLANDS UTILITY, INC.

WILLIE J. MORGAN TESTIMONY

<u>EXHIBIT NO.</u>	<u>EXHIBIT TYPE</u>	<u>PREPARED BY</u>
WJM-9	MUI WWTFs and Collection Lines Locations	DHEC
WJM-10	MUI Data Response w/out Exhibits	MUI
WJM-11	Windy Hill WWTF Schematic Design Flow Diagram	ORS
WJM-12	Raintree WWTF Schematic Design Flow Diagram	ORS
WJM-13	Bellemeade WWTF Schematic Design Flow Diagram	ORS

EXHIBIT WJM-9

Receiving Wastewater Treatment Facility Owners, Permits and Associated Subdivisions Fairfield, Richland, Lexington and Orangeburg Counties



● Cities

* DHEC Permits

— Highways

— Interstates

— Streams

— Lakes

Counties

Fairfield

Lexington

Orangeburg

Richland

Subdivision	County	System Type	Receiving WWTF Owner	DHEC Permits
Royal Hills	Fairfield	Collection	Town of Winnsboro	SC0020125
Vanarsdale	Lexington	Collection	Carolina Water Service, Inc.	SC0035564
Arbogate	Lexington	Collection	City of Cayce	SC0024147
Charwood	Lexington	Collection	City of Cayce	SC0024147
Fox Glen	Lexington	Collection	City of Cayce	SC0024147
Henwood	Lexington	Collection	City of Cayce	SC0024147
Mallard Trace	Lexington	Collection	City of Cayce	SC0024147
Montclair	Lexington	Collection	City of Cayce	SC0024147
Parkwood	Lexington	Collection	City of Cayce	SC0024147
Quinton Commons	Lexington	Collection	City of Cayce	SC0024147
Rockford Place	Lexington	Collection	City of Cayce	SC0024147
Stonewood	Lexington	Collection	City of Cayce	SC0024147
Timberland	Lexington	Collection	City of Cayce	SC0024147
Westgate	Lexington	Collection	City of Cayce	SC0024147
Bellemeade	Lexington	WWTF	Midlands Utility, Inc.	SC0030988
Windy Hill	Lexington	WWTF	Midlands Utility, Inc.	ND0067075
Northwood Estate	Orangeburg	Collection	Orangeburg Department of Public	SC0024481
Dutch Creek	Richland	Collection	Midlands Utility, Inc.	SC0039055
Raintree Acres	Richland	WWTF	Midlands Utility, Inc.	SC0039055



EXHIBIT WJM-10

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO.2004-297-S

IN RE: Application of MIDLANDS)
UTILITY, INC. For Approval of)
New Schedule of Rates and Charges)
For Sewerage Service Provided to)
Its Customers in Richland, Lexington)
Fairfield and Orangeburg Counties)

OFFICE OF REGULATORY
STAFF'S FIRST CONTINUING
DATA REQUEST

TO: FLORENCE P. BELSER, ESQUIRE, WENDY B. CARTLEDGE, ESQUIRE
ATTORNEYS FOR THE OFFICE OF REGULATORY STAFF

1.1 Describe the construction and/or upgrades proposed or taking place at Midlands Utility, Inc.

ANSWER: Construction of modern wastewater treatment facilities at Windy Hill subdivision, Raintree subdivision and Bellemeade subdivision. Also we must close out existing lagoons in accordance with DHEC regulations.

1.2 With regard to the loan agreement referenced in the Application on page 4 in paragraph 7:

- a. Has the loan been approved and been finalized?
- b. Have the funds from the loan agreement been received?
- c. What is the loan amount?
- d. What is the interest rate?
- e. What is the loan period in months?
- f. Who is the lender?

ANSWER: Previously furnished to the ORS by Bush River Utilities, Inc. and/or Development Service, Inc.

1.3 Explain the "conditional" nature of the loan as referenced in the Application on page 4, paragraph 8.

ANSWER: Previously furnished to the ORS by Bush River Utilities, Inc. and/or Development Service, Inc.

1.4 List the increased "operating expenses" Midlands Utility, Inc. has "experienced" as set forth on page 2, paragraph 2 of the Application.

ANSWER: Taxes, interest, depreciation, vehicle expense, professional services, etc.

1.5 Justify Midlands Utility, Inc.'s "anticipation" that expenses will increase as set forth on page 2, paragraph 2 of the Application.

ANSWER: In order to comply with the DHEC consent orders, Midlands Utility must upgrade its WWTF. This upgrade will cost approximately one million dollars. The increase of depreciation and interest expense will be the main expense.

1.6 Provide information on the following:

- a. How many taps have been connected to the systems owned by Midlands Utility, Inc. from inception of the system to the present?
- b. How much revenue from tap fees has been collected from customers from the inception of the system to the present?
- c. What is the maximum number of taps that can be installed on the present system?
- d. How many taps were provided during 2000, 2001, 2002, 2003 and 2004?
- e. How many taps do you anticipate making per year during the next five years?
- f. What were the total costs expensed for taps each year during 2000, 2001, 2002, 2003 and 2004?
- g. What were the total costs capitalized for taps for each year during 2000, 2001, 2002, 2003 and 2004?

ANSWER: This information is in the process of record recovery. Responses will be furnished as soon as the recovery is accomplished.

1.7 List and describe financing costs referred to in paragraphs 3 of the Application.

ANSWER: Previously furnished to the ORS by Bush River Utilities, Inc. and/or Development Service, Inc.

1.8 Explain why completion of the proposed construction will cause rates to exceed the rates charged during construction.

ANSWER: Same issues and reasons as previously furnished to the ORS by Bush River Utilities, Inc. and/or Development Service, Inc.

1.9 List the names and business titles of all people who provided information for preparation of the Application.

ANSWER: Previously furnished to the ORS by Bush River Utilities, Inc. and/or Development Service, Inc.

1.10 List the names and business titles of all people who provided information for preparation of the Application exhibits. Indicate who calculated the numbers for each exhibit and list the appropriate exhibit next to the individual's name.

ANSWER: Previously furnished to the ORS by Bush River Utilities, Inc. and/or Development Service, Inc.

1.11 Provide the beginning and ending dates or estimated beginning and ending dates for the phases of construction.

ANSWER: Waiting for DHEC approval to provide dates.

1.12 List the number of residential and commercial customers as of June 30, 2004 and January 1, 2005.

ANSWER: See Exhibit 1.12.

1.13 What were officer and employee salaries in 1997?

ANSWER: See Exhibit 1.13.

1.14 Where is the performance bond accounted for in the financial information?

ANSWER: Previously furnished to the ORS by Bush River Utilities, Inc. and/or Development Service, Inc.

1.15 Provide justification for the rates during and after construction listed in Exhibit 1.

ANSWER: Information still in discovery for response.

1.16 Is the state's tax credit for pollution control equipment being claimed by Midlands Utility, Inc. during the test years, during construction and after construction? If so, what

is the tax credit (or expected tax credit) and where is it included in the financial information submitted with the Application?

ANSWER: Previously furnished to the ORS by Bush River Utilities, Inc. and/or Development Service, Inc.

1.17 Is the state's tax credit for the construction or improvement of an infrastructure being claimed by Midlands Utility, Inc. during the test year, during construction and after construction? If so, what is the tax credit (or the expected tax credit) and where is it included in the financial information submitted with the Application?

ANSWER: Previously furnished to the ORS by Bush River Utilities, Inc. and/or Development Service, Inc.

1.18 List employees employed during June 30, 2000, 2001, 2002, 2003 and 2004 including their position, date of hire, salary hours worked per week, exempt/non-exempt status and duties.

ANSWER: To be furnished as soon as possible.

1.19 List state regulatory commission expenses for the test year of 2003 and for 2004 including legal expenses and postage.

ANSWER: See Exhibit 1.19.

1.20 Describe in detail all construction and/or current system improvement options Midlands Utility, Inc. researched and why these options were not chosen. Provide detail cost comparison information.

ANSWER: See Exhibit 1.20.

1.21 Describe all financial transactions between DSI, Inc., Bush River Utilities, Inc. and Midlands Utility, Inc. for the twelve months ended June 30, 2000, 2001, 2002, 2003 and 2004.

ANSWER: Previously furnished to the ORS by Bush River and/or DSI.

1.22 Provide annual expenses for Midlands Utility, Inc. for the twelve months ended June 30, 2000, 2001, 2002, 2003 and 2004 for the following accounts:

- a. salaries & wages
- b. purchased power
- c. purchased sewage treatment
- d. maintenance & repair
- e. chemicals
- f. office supplies & other office expenses

- g. regulatory commission expenses
- h. pension & other benefits
- i. rent
- j. insurance
- k. office utilities
- l. miscellaneous
- m. legal expenses and other professional services

ANSWER: To be furnished as soon as possible.

1.23 Provide the balance of accrued interest on customer deposits as of June 30, 2004.

ANSWER: See Exhibit 1.76.

1.24 Submit detailed working papers breaking down the "base year" revenue, the "during construction" revenue and the "after construction" revenue of Midlands Utility, Inc.

ANSWER: To be furnished as soon as possible.

1.25 What debts or other obligations of Midlands Utility, Inc. generated interest expense of \$2,749.00 for the test year? Please list the amount of interest attributed to each obligation.

ANSWER: To be furnished as soon as possible.

1.26 Provide a detailed breakdown for the "Salaries – Other" category containing the amounts \$156,550; \$160,000; and \$160,000, respectively. List the employee's name, amount paid and to be paid to the employee, and the duty performed by the employee.

ANSWER: See Exhibit 1.26.

1.27 What additional debts or other obligations will Midland Utility, Inc. assume or expect to assume necessitating an increase in "interest expenses" to \$35,505 during construction and \$40,485 after construction?

ANSWER: Additional debt to cover the approximately one million additional construction loan. One half year interest during construction.

1.28 To what assets and in what amounts does the depreciation expense as shown in the income statement apply? Please identify the useful life of each asset.

ANSWER: To be furnished as soon as possible.

1.29 Why does the depreciation expense increase during construction and after construction?

ANSWER: During construction includes ½ year of depreciation, after construction includes full year depreciation on new construction.

1.30 Explain the proposed decreases in expense for chemicals and detail how the decreases were calculated.

ANSWER: New facilities will have UV system thereby reducing amount of chlorine and sulphur dioxide.

1.31 Provide justification for the proposed decrease in professional services and include detail of the services being provided, including copies of invoices from the service providers for the test year.

ANSWER: Previously furnished to ORS auditors.

1.32 What expense are included in utilities? Explain why this amount decreases during construction and increase after construction.

ANSWER: See Exhibit 1.32. More utility use with new facility.

1.33 Provide invoices or documentation concerning "rate case expenses".

ANSWER: Previously furnished to ORS auditors.

1.34 What amortization period is being proposed for rate case expenses? Provide justification for the proposed amortization period.

ANSWER: Previously furnished to ORS by Bush River and/or DSI.

1.35 During the test year, the period during construction and the period after construction, what items are included in the expense category "Other Operating Expense" and in what amounts?

ANSWER: To be furnished later.

1.36 Provide details and any documentation regarding the DHEC fines. For what reasons and in what amounts were the fines issued? How is the \$30,451, \$40,000 and the \$20,000 amount in the application determined? Provide a copy of the orders dictating the fines. What are there projected "DHEC fines" listed during construction and after construction? Does Midlands Utility, Inc. have any outstanding noted violations by DHEC? If so, what are they and provide a copy of the documentation by DHEC that outlines these potential violations.

ANSWER: Consent orders previously furnished to ORS and no outstanding violations or DHEC fines anticipated.

1.37 Provide justification for why the fines should be included as an allowable expense for Midlands Utility, Inc. in determining its rates for sewer service.

ANSWER: All fines have been satisfied.

1.38 Provide an income and expense calculation sheet for Midlands Utility, Inc.

ANSWER: Previously furnished to the ORS auditors.

1.39 What is the single family equivalent for Midlands Utility, Inc.? Provide details as to how this number is determined.

ANSWER: See Exhibit 1.39.

1.40 What expense are included in vehicle expenses? Explain why this amount increases during construction and after construction period. What type(s) of vehicles does this include?

ANSWER: To be answered as soon as possible.

1.41 Describe in detail the current liabilities comprising the \$58,111 in "notes payable" listed in Exhibit 3.

ANSWER: To be answered as soon as possible.

1.42 Provide justification for the life years of the property listed in the depreciation schedule in Exhibit 3.

ANSWER: To be furnished as soon as possible.

1.43 What "land" and "plant and equipment" listed in Exhibit 5 does Midlands Utility, Inc. own and where is it located? Indicate the years each was placed in service and its purchase price. Does this include the business office at 816 East Main Street in Lexington, South Carolina? Does it include other properties in Lexington County at SE/S of Fish Hatchery Road, S Side of Crosshill Road, property adjacent to 154 Parkwood Drive, property 0.1 mile NE of Nikon Circle; property in Orangeburg County on Oaklane Road N, property off Northwoods Drive in Dation Pond S/D; properties in Fairfield County; and properties in Richland County?

ANSWER: To be furnished as soon as possible.

1.44 Subsequent to the last rate case, has there been any change in the ownership of Midlands Utility, Inc.? If so, provide a listing of the owners of the Company. Was the change in ownership approved by the Commission? If so, please identify the docket in which the Commission addressed the change of ownership of the Company?

ANSWER: Previously furnished to ORS by Bush River and/or DSI.

1.45 List by year the total number of bills issued to customers during the years 2000, 2001, 2002, 2003 and 2004.

ANSWER: See Exhibit 1.45.

1.46 Provide a copy of the bank commitment letter to provide financing for construction project.

ANSWER: Previously furnished to ORS by Bush River and/or DSI.

1.47 List the Midlands Utility, Inc. assets pledged for the loan referenced in the Application.

ANSWER: Previously furnished to ORS by Bush River and/or DSI.

1.48 Provide the method of allocation for common expense between DSI, Bush River and Midlands?

ANSWER: Previously furnished to ORS auditors.

1.49 Provide a comparative statement and detailed work papers for expense categories and expenses by account number, including labor, for utility operations for the twelve-month periods ending June 30, 2000, 2001, 2002, 2003 and 2004.

ANSWER: To be provided as soon as possible.

1.50 Provide a comparative statement and detailed work papers for expense categories and expense by account number, excluding labor, for utility operations for the twelve-month periods ending June 30, 2000, 2001, 2002, 2003 and 2004.

ANSWER: To be provided as soon as possible.

1.51 Provide a copy of the loan agreement referenced in the Application on page 4, paragraph 8, its applicable amortization schedule, and any other relevant documentation.

ANSWER: Previously furnished to ORS by Bush River and/or DSI.

1.52 Provide a schedule showing when salaries of Midlands Utility, Inc. employees are paid and pay stubs for three consecutive pay periods for officers and staff.

ANSWER: To be provided as soon as possible.

1.53 Provide a schedule detailing the amount of bonuses received by Midlands Utility, Inc. officers, owners and employees during the test year.

ANSWER: See Exhibit 1.53.

1.54 Provide a depreciation schedule for all Midlands Utility, Inc. plant and equipment.

ANSWER: See Exhibit 1.54.

1.55 Provide the completed general accounting ledger for the 2004 test year.

ANSWER: Provided to accounting auditors. Excessive amount of documentation received by them.

1.56 Provide a schedule showing the number of billing units served by Bush River Utilities, Inc. at December 31, 2003 for the following:

- a. Residential (single family/apartments)
- b. Mobile Homes
- c. Car Washes
- d. Churches
- e. Factories (separated by those with no showers, with showers, and with kitchen facilities)
- f. Food Services Operations (separated by those that are not 24-hour restaurants, are 24-hour restaurants, provide curb-side service, serve fast-food, and are a vending machine restaurant)
- g. Institutions
- h. Motels/Hotels
- i. Nursing Homes (separated by those that do and do not provide laundry services)
- j. Laundries
- k. Offices
- l. Picnic Parks
- m. Assisted Living Homes (separated by those that do and do not provide laundry services)
- n. Schools
- o. Service Stations (separated by those with bays and without bays)
- p. Shopping Centers
- q. Swimming Pools
- r. Theaters
- s. Country Clubs, Fitness Centers, Spas, Health Clubs, and similar entities.
- t. Convenience Store
- u. All remaining customers not listed above.

ANSWER: See Exhibit 1.56.

1.57 Provide all work papers, documents, plats, maps, recordings or other items used to prepare the Application and its attached Exhibits.

ANSWER: To be provided as soon as possible.

1.58 Provide all documents discovered, identified or referred to by Midlands Utility, Inc. in preparation of the Application.

ANSWER: All information identified to auditors and reflected by application exhibits.

1.59 Provide all federal and state income tax returns signed and filed by Midlands Utility, Inc. for tax years 2000, 2001, 2002, 2003 and 2004. This request includes all supporting schedules and documents, such as 1099s, and the like, whether filed or not.

ANSWER: See Exhibit 1.59.

1.60 In Exhibit 3 on page 2, there is a reference to "New proposed Plants." Provide detailed description and location of the "New proposed Plants". Provide detailed information about the status of the necessary approval of the proposed plants (i.e., DHEC, local municipal approval, other state and federal approvals, etc.).

ANSWER: PERs as designed to be furnished late.

1.61 Provide justification of using the prescribed average life years of each of the items as outlined in Exhibit 3 on page 2.

ANSWER: Exhibits furnished as late filings in Bush River Utilities, Inc. case previously provided to ORS.

1.62 What months(s) and year(s) were used to determine the list of customers indicated in Exhibit 2, page 3 and 4?

ANSWER: Undetermined at this time until recovery of records complete.

1.63 Please provide a complete copy of the application Midlands Utility, Inc. filed with the DHEC for approval of the new construction or upgrades to the current system. Include any exhibits, drawings, maps, cost information, technical background information and any other documents relating to the application.

ANSWER: To be furnished as soon as possible.

1.64 Has DHEC approved the proposed construction or upgrades to Midlands Utility, Inc.? If so, provide documentation of DHEC's approval. If not, has Midlands Utility, Inc. applied for approval? What is the current status of DHEC's approval? What additional information does DHEC require to approve the proposed construction or

upgrades? Provide any documents or information given to DHEC relating to a request for approval of the proposed construction or upgrades. Provide an estimated date for when DHEC will approve the proposed construction or upgrades.

ANSWER: Pending. DHEC is aware of the need for PER approvals on an expedited basis.

1.65 What is the current status of Midlands Utility, Inc.'s compliance with DHEC Consent Orders, and specifically list penalty payments made in completion of Consent Order task?

ANSWER: See Exhibit 1.65.

1.66 Provide a copy of all contract terms and conditions for wastewater disposal with Treatment Providers listed on Exhibit 4, page 2.

ANSWER: To be furnished as soon as possible.

1.67 Provide all calculations and amounts for Bad Debt Expense for 2001, 2002, 2003 and 2004. Include calculation of how these amounts were determined.

ANSWER: To be furnished as soon as possible.

1.68 Explain what is meant by Mobile Base on Exhibit 4, page 2.

ANSWER: A mobile base is to distinguish between mobile homes and a modular home.

1.69 Provide the calculation for Plant Expansion and Modification fee of \$250/SFE (Exhibit 1, page 1). Explain in detail the services that are provided by this fee through the treatment entity.

ANSWER: To be provided as soon as possible.

1.70 Explain and provide detail cost justification for the increase in Tap Fees and Plant Expansion and Modification Fees on the New Rate Schedule in Exhibit 2, page 4.

ANSWER: To be provided as soon as possible.

1.71 How are tap fees recorded on the books of Midlands Utility, Inc.?

ANSWER: See Exhibit 1.71.

1.72 Was an open bidding process utilized to allow multiple vendors to submit proposals for upgrading the Midlands Utility, Inc. WWTFs? If so, what were the

proposals? Were multiple options considered before agreeing upon a specific proposal for addressing the compliance problems at Midlands Utility, Inc? If so, what were they?

ANSWER: No.

1.73 What is Other Income of \$28,806 as shown on Exhibit 2, page 1? Explain Other Income of \$18,000 during construction and after construction.

ANSWER: To be provided as soon as possible.

1.74 Provide details for amount "Due from Affiliates" of \$30,097.

ANSWER: To be provided as soon as possible.

1.75 Provide details for "Unamortized Loan Cost: of \$80,885.

ANSWER: Previously furnished to ORS in rate filings for Bush River and DSI.

1.76 Provide details for Customer Deposits of \$58,600. Does the Company pay interest on customer deposits?

ANSWER: See Exhibit 1.76.

1.77 Provide details for amount "Due to Affiliates" of \$1,683.

ANSWER: To be determined and provided as soon as possible.

1.78 Explain the difference between total prior depreciation of \$2,388,062 (Exhibit 3, page 2) and the amount shown on the balance sheet (Exhibit 3, page 1) of \$2,474,339.

ANSWER: To be provided as soon as possible.

1.79 How much revenue from plant expansion and modification fees has Midlands Utility, Inc. collected from customers?

ANSWER: To be provided as soon as possible.

1.80 Provide the details for treatment expenses of \$265,021 for the base year and \$376,000 during and after construction as shown on Exhibit 2, page 1.

ANSWER: See Exhibit 1.80.

1.81 Provide a detailed breakdown from the "Salaries – Officers" category containing the amount of \$55,192; \$75,000 and \$75,000 respectively on Exhibit 2, page 1. List the officers' names and amounts paid.

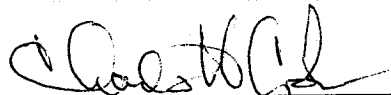
ANSWER: To be provided as soon as possible.

1.82 Provide details of any and all lobbying activities conducted by or on behalf of the Company during the test year. List all entities lobbied, include all costs incurred in the lobbying activities, and include copies of invoices for lobbying services. Also specify for the test year the expense account in which lobbying services and expenses are included.

ANSWER: See Exhibit 1.82.

1.83 Has Midlands Utility, Inc. pursued alternative disposal methods (i.e., land application, recycled, etc.) for its sludge management method? If so, provide details of the alternatives explored. Include information about cost comparisons and other pertinent information for why an alternative was not selected or is not being used.

ANSWER: No.



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February 3, 2005

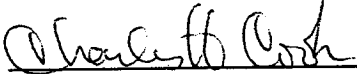
VERIFICATION OF APPLICANT

I, Keith G. Parnell, President of Midlands Utility, Inc., a South Carolina corporation, the applicant for a Rate Increase from the Public Service Commission of the State of South Carolina, verify that based on information and belief, I have knowledge of the statements in the foregoing Midlands' Responses to Office of Regulatory Staff's Second Continuing Data Request, and I declare that they are true and correct.



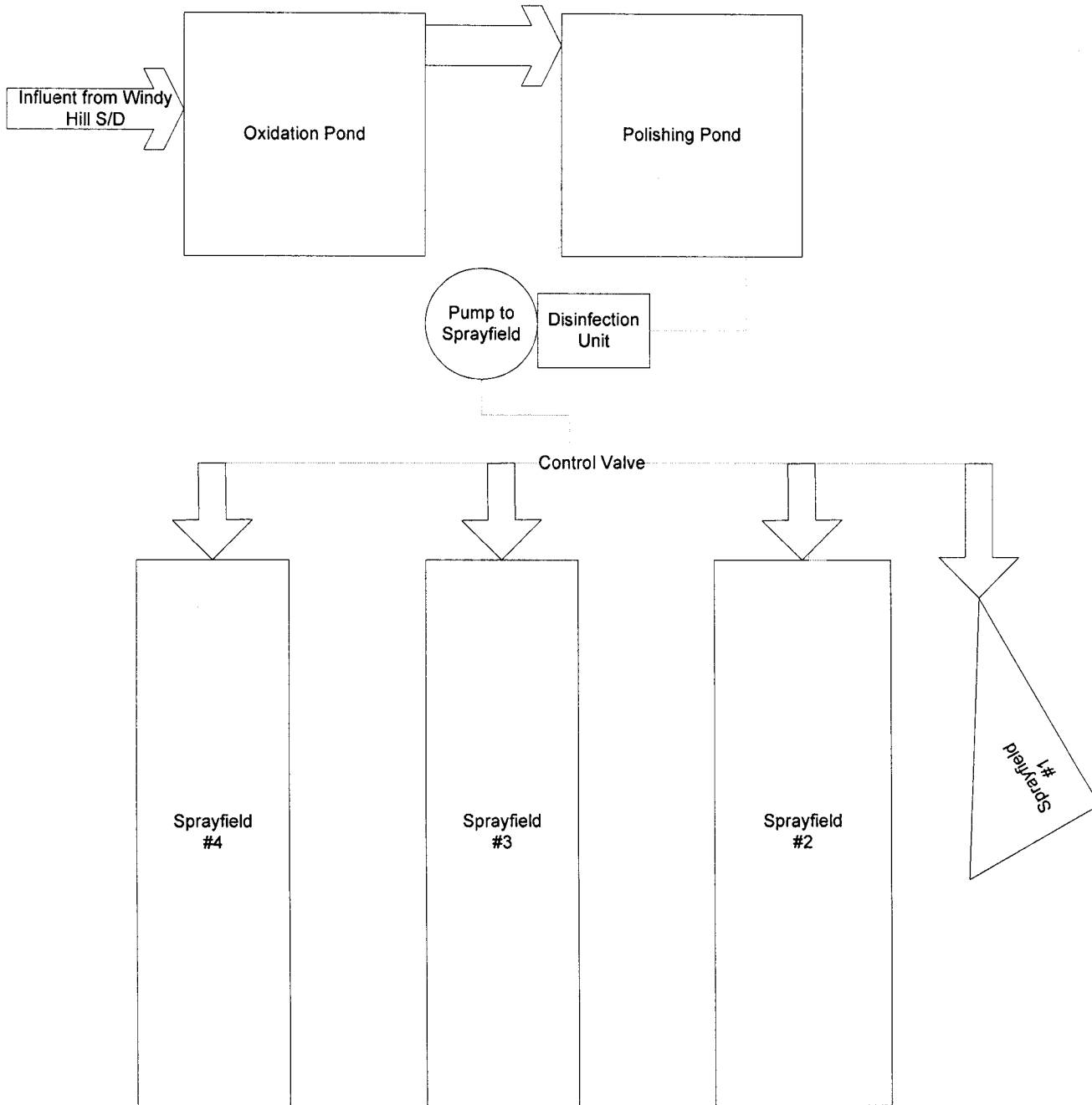
Keith G. Parnell
President
Midlands Utility, Inc.

Sworn to me, the undersigned on
this 3rd day of February, 2005.



Notary Public

My commission expires 10/28/2012



Midlands Utility, Inc.
Raintree Wastewater
Treatment Facility

EXHIBIT WJM-12

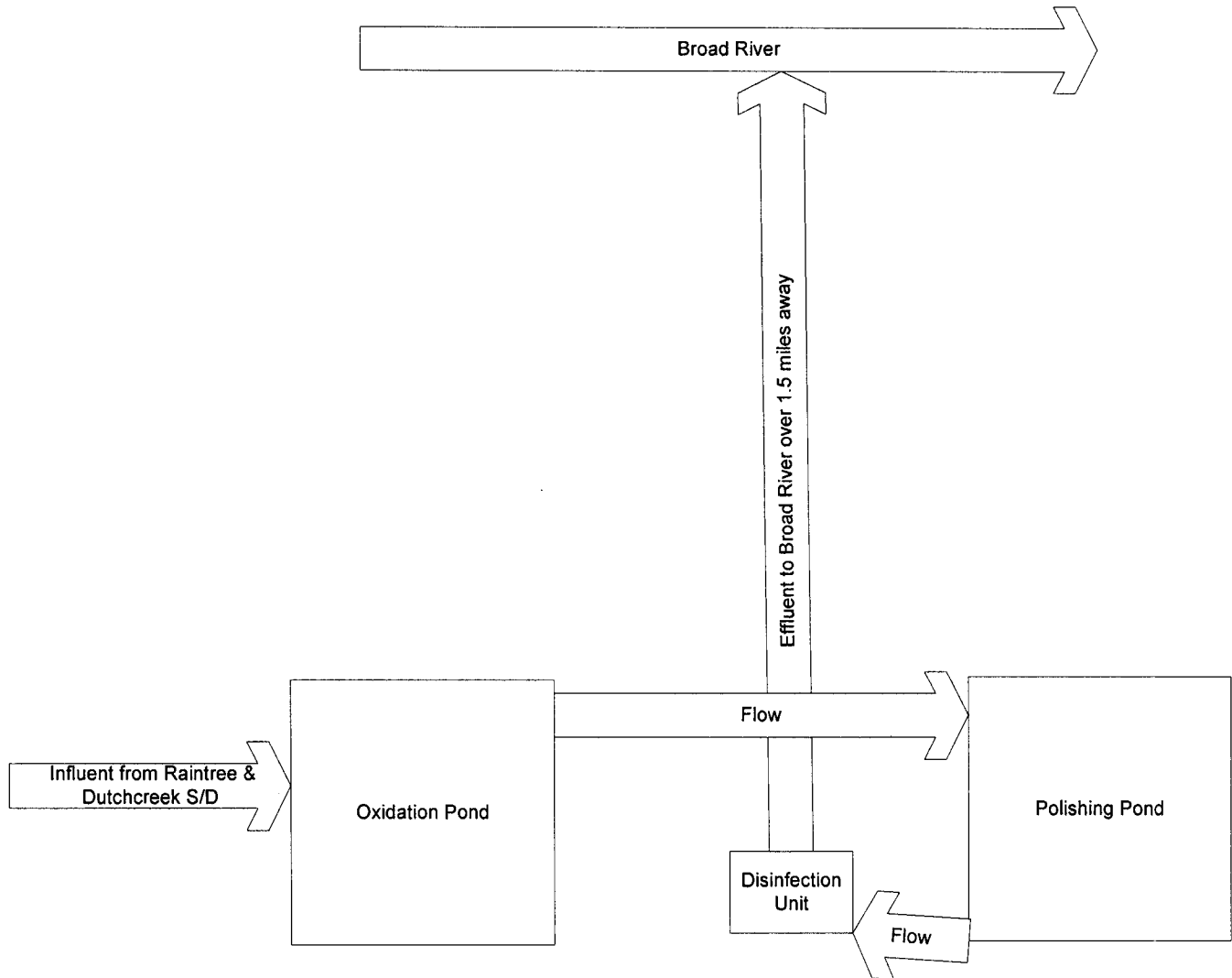


EXHIBIT WJM-13

**Midlands Utility, Inc.
Bellemeade Wastewater
Treatment Facility**

